

CIRCLE III

Working document 10

"Discussion circle" on own resources

Subject : **Answers from Mrs Danuta Hübner, Member of the Convention, to the questions put to the Discussion Circle on own resources**

Members of the "Discussion circle" on own resources will find hereafter a paper from Mrs Danuta Hübner, Member of the Convention.

Answers from Professor Danuta Hübner to the questions put to the Discussion Circle on own resources

1. Does the existing system of own resources meet public expectations in terms of fairness and transparency?

I must agree that the current system of own resources does not adequately meet the requirement of transparency for the citizens. Taxpayers do not know how much they pay into the European Union budget. Incomprehensible principles of budget financing hinder identification with the EU and lead to misconceptions regarding integration costs.

In my opinion improved transparency of the own resources system resulting from the establishment of a direct relationship between citizens and the EU budget would also contribute to an increased public interest in budget expenditure in the EU. In the current situation, when the relationship between a citizen and the EU budget is not clear, citizens' pressure aimed at rationalisation of ineffective policies and getting value for money is much less likely to surface.

The own resources system based upon the current „contribution” model lessens the significance of the Community interest. This approach hampers the development of current policies even if they do bring a significant added value and virtually prevents the undertaking of new tasks designed to meet present day challenges. Hence an improved financial autonomy of the EU can serve Union's long-term interests.

But fairness in the budget is as important as financial autonomy. The shift from VAT-based own resource to the GNI base resource increased equity of the Member States' gross contribution in recent years. The VAT-based own resource is regressive since consumption in the least prosperous Member States accounts for a higher VAT base in GNP. In practice this signifies that the poorer a state is, the relatively higher payments it has to make by virtue of this own resource. This significantly departs from fiscal systems of almost all Member States, which are based on progressivity. Therefore the gradual replacement of the VAT resource by the GNI resource represents a significant improvement in the present system. The GNI resource is based on the principle of proportionality of contributions to income.

Further steps should be considered towards reducing the regressive elements in the own resources system that could at the same time contribute to its simplification.

II. Would the existing decision-making procedure allow substantial amendments to be made to these resources?

I do not think it should be the Convention's ambition to settle upon very detailed solutions concerning lines of development for the own resources system. The debate indicates that profound controversies can surround even general criteria. Nor should we make attempts at recommending adoption of any new own resource. The discussion we witnessed on the current financial perspective, indicates how many difficulties of a technical nature are involved in thinking about a new own resource.

On the other hand provisions, of the Constitution should facilitate an evolution of the own resources system, so that in the future it would be possible to substitute the current own resources with new ones meeting the criteria of transparency to citizens, equity and EU financial autonomy.

III. Should Council decisions under the Article 269 procedure continue to be unanimous? What role should the European Parliament play? Should the Article 269 procedure uphold the requirement for adoption by the Member States in accordance with their respective constitutional requirements, or should financing be turned into a Union competence?

Assessment of the draft Article 38 (that takes over the current Article 269 TEC) and answers to questions submitted by the Secretariat concerning the procedure, should allow for at least three criteria:

- an obvious need for evolution of the own resources system
- a need to ensure that the opinion of each Member State is equally taken into account in the decision-making process
- a need to improve the effectiveness of the decision-making process in the perspective of the current and future enlargements

It would be unacceptable to impose additional encumbrances upon a Member State if its democratically elected government objects in modifying the own resources system. Therefore such decisions should be taken unanimously in the Council. An enhanced role of the European Parliament through application of the assent procedure instead of consultation procedure should anticipate the evolution of the own resources system (increased financial autonomy) in the decades to come.

Greater effectiveness of the decision-making process, on the other hand, can be achieved through relinquishing the ratification procedures by the Member States of the provisions relating to the system of own resources of the Community.

National parliaments can significantly influence the decision-making process by setting out *ex ante* their government's mandate for negotiations of most fundamental issues for the operation of the own resources system. However, any solution to the dilemma of how national parliaments are to be included into the decision-making process concerning own resources must not be separated from the Convention's position on the role of national parliaments in the decision-making process concerning other issues of the most fundamental significance for the European Union.
